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FISCAL IMPACT STATEMENT

LS 7362

BILL NUMBER: HB 1347

NOTE PREPARED: Feb 2, 2004

BILL AMENDED: Jan 29, 2004

SUBJECT: Various Tax Matters.

FIRST AUTHOR: Rep. Harris

BILL STATUS: CR Adopted - 1st House

FIRST SPONSOR:

FUNDS AFFECTED: X GENERAL
 X DEDICATED
 FEDERAL

IMPACT: State & Local

Summary of Legislation: (Amended) *Abatement Processing:* This bill suspends the transfer of certain tax abatement duties from the Department of Local Government Finance (DLGF) to county auditors. This bill delays until 2006 the shift of administration of personal property tax abatement from the DLGF to the county auditor.

Township Reassessments: For a petition to the DLGF seeking an order to reassess real property in a township, the bill establishes the minimum number of petitioners required without reference to township population.

Local Cost Multiplier: This bill prohibits the use of location cost multipliers beginning with the next general reassessment of real property.

Fair Market Value: The bill establishes fair market value as a standard of evidence in the appeal of a residential assessment, and permits the filing before July 1, 2004, of an appeal using such evidence for the 2003 assessment date.

Equalization: This bill eliminates the limitation that equalization authority of the county property tax assessment board of appeals (PTABOA) applies only to the assessments made with respect to the last preceding assessment date. It also directs the county assessor to conduct equalization duties in a year other than a general reassessment year under rules of the DLGF.

Equalization Studies: The bill allows the DLGF to contract for assistance with equalization studies and school assessment ratio studies.

Property Tax Data: This bill alters the amounts of Property Tax Replacement Fund money withheld from a

county for failure of local officials to provide certain information to the state, and provides for withholding of money distributable in 2004 based on failure to provide certain information in 2003.

Local Option Income Tax Distributions: It specifies that distributions of local income tax revenue are based on proportionate property tax levies payable in the year that immediately precedes the distribution.

Solid Waste Management District Levies: This bill allows the DLGF to adjust certain solid waste management district levies for taxes payable in 2004.

Supplemental Utility Receipts Tax: This bill establishes the Supplemental Utility Receipts Tax, and uses revenue to apply supplemental homestead credits.

County Land Valuation Commissions: The bill also repeals the county land valuation commission and provisions involving the PTABOA and the DLGF in the setting of land values.

The bill adjusts certain rounding factors.

Effective Date: (Amended) July 1, 2003 (Retroactive); Upon passage; July 1, 2004.

Explanation of State Expenditures: (Revised) *Abatement Processing:* During the 2003 legislative session (P.L. 245-2003 and P.L. 256-2003), the responsibility for certain property tax abatements was transferred from the DLGF to county auditors, effective for taxes payable in 2005. The proposal allows an extension by providing that the transfer of duties affects taxes payable in 2007. This provision will have no impact on the DLGF as they will continue with the tasks for two more years.

The DLGF may adopt temporary rules to implement the above. If the DLGF elects to adopt temporary rules, the DLGF could experience an increase in administrative expenses. However, the DLGF should be able to absorb any additional expenses given its current budget and resources.

Equalization Studies: This provision would allow the DLGF to contract with an outside source for assistance with statewide equalization studies and the School Assessment Ratio Study.

Explanation of State Revenues: (Revised) *Supplemental Utility Receipts Tax:* This bill creates a Supplemental Utility Receipts Tax (SURT) at a rate of 1.2%. This supplemental tax is to be deposited in the Property Tax Replacement Fund (PTRF). The tax increase is effective July 1, 2004. Based on the January 12, 2004, Revenue Forecast for the current Utility Receipts Tax, the increase in the SURT is expected to raise approximately \$90 M annually. This incremental increase in revenue will be deposited in the PTRF beginning in FY 2005.

Background: The current Utility Receipts Tax is 1.4%. The current revenue forecast for the URT is \$107.8 M for FY 2004 and FY 2005. This bill will increase the effective tax rate on utility receipts to 2.6%.

Explanation of Local Expenditures: (Revised) *Abatement Processing:* Counties would also receive a two-year extension before they would have to assume responsibilities for certain property tax abatements. This provision could delay some expenses to counties for two years.

Explanation of Local Revenues: (Revised) *Fair Market Value:* This provision provides the assessed value of residential property may not exceed fair market value. The bill allows residential taxpayers to appeal their March 1, 2003, assessment until June 30, 2004, on the basis that the assessment exceeds fair market value.

Township Reassessments: Under current law, a petition may be filed to have all of the real property in a township reassessed in years without a general election. The petition must be filed by a minimum percentage of the property owners in the township. The percentage varies with the population of the township and whether or not it contains a municipality. Under this provision, a minimum of ten property owners or the owners of property with at least 1% of the township's total assessed value could file the petition. This bill would allow a lesser number of taxpayers to sign a petition that begins the process.

Local Cost Multiplier: Under current DLGF assessment guidelines, the reproduction cost of real property improvements is adjusted by a local cost multiplier (LCM). The LCM ranges from 0.93 to 1.11. This provision would prohibit the use of LCMs beginning with March 1, 2009, assessments. This provision would likely not have much impact on the final assessed value of real property. This is because the last step in the assessment process is to apply a sales factor to the reproduction cost to approximate market value. If the LCM is above 1.00, the removal of the LCM would cause the sales factor to increase. Conversely, if the LCM is less than 1.00, the removal of the LCM would cause an increase in the sales factor. Counties with an LCM equal to 1.00 would be unaffected.

Equalization: Under current law, the county property tax assessment board of appeals (PTABOA) may equalize assessments for the immediately preceding assessment date only. This bill would remove this limitation.

Current law requires the county assessor to equalize assessments between the townships in the county after a general reassessment. This bill would require the county assessor to equalize after a general reassessment and in other years under DLGF rules regarding reassessment equalization and annual adjustments.

Property Tax Data: Under current law, the county assessor and the county auditor must remit property tax assessment and billing data for each parcel and each personal property tax return to the Legislative Services Agency and to the DLGF. The state must withhold the property tax replacement credit payments attributable to the county reassessment fund from any county that does not remit all of the required data. This provision would increase the penalty to equal 2% of the total state PTRC and homestead credit payments for all funds in all units in the county. If a county fails to comply with the data requirements, the loss in revenue would be much greater under this provision than under current law. The bill also stipulates that the county auditor must remit the tax billing data within the later of (1) March 1 or (2) 30 days of mailing tax statements.

Solid Waste Management District Levies: This provision allows the DLGF to set the tax rates for counties who participate in a multi-county solid waste management district for taxes payable in 2004 in cases where one of the participating counties has not sent the DLGF their assessed valuation for the taxing district. The DLGF could certify the tax rates for the other participating counties who had completed their assessed valuations based on the portion of the individual county's certified assessed value in 2002 relative to the total certified assessed value of all the counties that participated in the district for that same year.

Supplemental Utility Receipts Tax/Homestead Credit: This bill directs revenue raised from the Supplemental Utility Receipts Tax to be distributed to counties to provide an additional homestead credit to offset the increase in homestead property taxes due to the change in utility tangible property due to the last general reassessment. This homestead credit would first be applicable with property taxes due and payable in 2005. Based on the estimated revenue collection of the Supplemental Utility Receipts Tax as noted above, an additional \$90 M will be available for this supplemental homestead credit.

Local Option Income Tax Distributions: The bill also clarifies that the term "levy" as it pertains to local option income tax distribution formulas refers to the previous year's abstract levy. This clarification should

have no fiscal impact.

State Agencies Affected: Department of Local Government Finance.

Local Agencies Affected: Counties.

Information Sources: *January 12, 2004, Revenue Forecast*, Revenue Technical Committee.

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